

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**HB 354 – SB 566**

February 17, 2011

**SUMMARY OF BILL:** Reduces the state sales tax rate on food and food ingredients from 5.5 percent to 2.75 percent, effective January 1, 2012.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact – \$109,662,200/FY11-12  
\$223,710,800/FY12-13 and Subsequent  
Years**

**Decrease Local Revenue – Net Impact - \$2,594,800/FY11-12  
\$5,295,000/FY12-13 and Subsequent  
Years**

**Assumptions:**

- Fifty percent of tax savings will be spent on other non-food sales-taxable goods and services.
- According to the Department of Revenue, state sales tax collections from food and food ingredients in FY09-10 were approximately \$476,900,000.
- Based on historical growth rates for food sales, retail sales of food and food ingredients grow by two percent per year. Under current law, state sales tax collections from food and food ingredients for FY11-12 are estimated to be \$496,166,800 ( $\$476,900,000 \times 102.0\% \times 102.0\%$ ).
- State sales tax collections derived from food and food ingredients will decrease by 50 percent.
- The revenue loss from this 50 percent rate reduction is reduced by 50 percent in the first year due to the proposed effective date.
- The decrease in state sales tax collections for FY11-12 will be \$124,041,700 ( $\$496,166,800 \times 50.0\% \times 50.0\%$ ).
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of all state sales tax revenue as state-shared sales tax revenue.
- Local governments are not held harmless from the loss of state-shared sales tax revenue.
- The decrease in local government revenue from loss of state-shared sales tax revenue for FY11-12 will be \$5,696,600 ( $\$124,041,700 \times 4.5925\%$ ).

- The increase in state sales tax revenue for FY11-12 as a result of tax savings being spent on other non-food sales-taxable goods and services is estimated to be \$8,682,900 ( $\$124,041,700 \times 7.0\%$  current sales tax rate).
- The net decrease in state revenue for FY11-12 will be \$109,662,200 ( $\$124,041,700 - \$5,696,600 - \$8,682,900$ ).
- The increase in local option sales tax revenue in FY11-12 as a result of tax savings being spent on other non-food sales-taxable goods and services will be \$3,101,800 ( $\$124,071,700 \times 2.5\%$  average local option sales tax rate).
- The net decrease in local government revenue for FY11-12 will be \$2,594,800 ( $\$5,696,600 - \$3,101,800$ ).
- The decrease in state sales tax collections for FY12-13 will be \$253,045,100 [ $(\$496,166,800 \times 102.0\%) \times 50.0\%$ ].
- The decrease in local government revenue from loss of state-shared sales tax revenue for FY12-13 will be \$11,621,100 ( $\$253,045,100 \times 4.5925\%$ ).
- The increase in state sales tax collections for FY12-13 as a result of tax savings being spent on other non-food sales-taxable goods and services is estimated to be \$17,713,200 ( $\$253,045,100 \times 7.0\%$  current sales tax rate).
- The net decrease in state revenue for FY12-13 will be \$223,710,800 ( $\$253,045,100 - \$11,621,100 - \$17,713,200$ ).
- The increase in local option sales tax revenue in FY12-13 as a result of tax savings being spent on other non-food sales taxable goods and services will be \$6,326,100 ( $\$253,045,100 \times 2.5\%$  average local option sales tax rate).
- The net decrease in local government revenue for FY12-13 will be \$5,295,000 ( $\$11,621,100 - \$6,326,100$ ).

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc